

## Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-02 NSC-05

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R 180050Z JUL 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 6210

INFO AMCONSUL BRISBANE BY POUCH

AMCONSUL MELBOURNE BY POUCH

USMISSION OECD PARIS

AMCONSUL PERTH BY POUCH

AMCONSUL PORT MORESBY BY POUCH

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AMEMBASSY TOKYO

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SYDNEY ALSO PASS TRADE CENTER

E.O. 11652: N/A

TAGS: EALR, ETRD, EIND, AS

SUBJ: TOYOTA AND NISSAN TO MANUFACTURE AUTOS IN AUSTRALIA

REF: (A) CANBERRA 7528, 11/18/74; (B) A-161, 9/17/74 (NOTAL)

1. BEGIN SUMMARY: TOYOTA AND NISSAN REPORTEDLY AGREE IN PRINCIPLE TO ENTER AUTOMOBILE MANUFACTURING IN AUSTRALIA AT 85 PCT. LOCAL CONTENT AND TO JOIN CHRYSLER AND GOA IN JOINT VENTURE TO PRODUCE 4-CYLINDER ENGINES. CHRYSLER WELCOMES PROJECT, WHICH WILL UTILIZE PRESENTLY UNDER-UTILIZED CHRYSLER ENGINE PLANT IN SOUTH AUSTRALIA. FORD AND GM FEAR INTRODUCTION TWO ADDITIONAL MANUFACTURERS WILL FURTHER FRAGMENT MARKET,  
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REDUCE AUSTRALIAN INDUSTRY'S COST COMPETITIVENESS, REQUIRE



CONTINUATION OR INTENSIFICATION OF IMPORT PROTECTION AND REDUCE RATHER THAN MAINTAIN OR INCREASE TOTAL AUTOMOBILE INDUSTRY EMPLOYMENT. ENTRY OF JAPANESE AS MANUFACTURERS, IF IT IN FACT MATERIALIZES, WILL SERVE NUMEROUS GOA SHORT-RUN OBJECTIVES. IN THE LONGER RUN, HOWEVER, IT SEEMS INEVITABLE THAT LIMITED SIZE OF AUSTRALIAN MARKET WILL AGAIN FORCE REDUCTION IN NUMBER OF MANUFACTURERS TO MAXIMUM OF TWO OR THREE AND THAT OVERALL EFFECT OF JAPANESE ENTRY MUST BE ADVERSE TO PRESENT U.S.-OWNED PRODUCERS. END SUMMARY.

2. MINISTER FOR MANUFACTURING INDUSTRY BOWEN ANNOUNCED JULY 10 THAT TOYOTA AND NISSAN, WHICH NOW SEPARATELY ASSEMBLE (60 PERCENT LOCAL CONTENT) CARS LOCALLY HAVE "APPLIED TO GOA FOR APPROVAL" TO MANUFACTURE MOTOR VEHICLES WITH 85 PERCENT LOCAL CONTENT (AND HENCE TO ENJOY TARIFF CONCESSIONS FOR REMAINING 15 PERCENT). AS PART OF THIS MOVE, BOTH COMPANIES HAVE "PROPOSED TO PARTICIPATE" IN A JOINT VENTURE TO MANUFACTURE 4-CYLINDER ENGINES IN SOUTH AUSTRALIA IN PARTNERSHIP WITH CHRYSLER AND GOA. STATEMENT SAYS THAT SEVERAL IMPORTANT MATTERS RELATED TO THIS PROPOSED JOINT VENTURE REMAIN TO BE NEGOTIATED, INCLUDING SCOPE OF VENTURE'S OPERATIONS AND RELATIVE SHAREHOLDINGS OF EACH PARTICIPANT.

3. EMBASSY OFFICER HAS DISCUSSED ANNOUNCEMENT WITH ROBERT PERKINS, MANAGING DIRECTOR, CHRYSLER AUSTRALIA LTD. IN ADELAIDE, WHOSE LONSDALE, S.A. PLANT WILL ACTUALLY PRODUCE THESE SMALLER ENGINES (WHICH ARE NOT NOW MANUFACTURED LOCALLY). PERKINS SAID ANNOUNCEMENT IS "GOOD NEWS" FOR CHRYSLER, WHICH WILL BE ABLE TO UTILIZE PROFITABLY NOW-IDLE PLANT CAPACITY. HE ADDED THAT OWNERSHIP SHARES OF 4-CYLINDER ENGINE JOINT VENTURE WILL PROBABLY BE EITHER ON 30-30-30-10 PERCENT BASIS (WITH GOA HAVING 10 PERCENT) OR WITH ALL FOUR PARTNERS HOLDING 25 PERCENT. PERKINS SAID THAT GENERAL MOTORS-HOLDEN AND FORD HAD DECLINED GOA INVITATION TO PARTICIPATE BUT THAT HE UNDERSTANDS "DOOR IS STILL OPEN" FOR THEM TO JOIN THIS VENTURE IN FUTURE.

4. EMBOFF ALSO DISCUSSED ANNOUNCEMENT WITH W.A.N. HARTIGAN OF FORD ASIA-PACIFIC INC. IN MELBOURNE. HARTIGAN OBSERVED THAT GOA HAS BEEN SEEKING FOR SOME TIME TO PRESSURE NISSAN AND TOYOTA INTO LOCAL MANUFACTURE AND THAT JULY 10 ANNOUNCEMENT WAS PREMATURE LIMITED OFFICIAL USE

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SINCE TOYOTA, HE SAID, HAS SUBSEQUENTLY STRESSED THAT ONLY "LETTER OF INTENT" NOT ACTUAL AGREEMENT HAS BEEN SIGNED. HARTIGAN SAID THAT JAPANESE WILL FIND MANUFACTURING SMALL CARS (WHICH ARE TRADITIONALLY LOW PROFIT MODELS) WITH 85 PERCENT LOCAL CONTENT A VERY COSTLY PROPOSITION. FORD'S REAL CONCERN, HE SAID, IS THAT TO MAKE SMALL ENGINE PRODUCTION VIABLE GOA MAY INTRODUCE DISCRIMINATORY TAX FAVORING 4-CYLINDER OVER 6 AND 8-CYLINDER MODELS WHICH FORD (AND GENERAL MOTORS-HOLDEN) PRODUCES.



5. GENERAL MOTORS-HOLDEN MANAGING DIRECTOR MARTIN, IN COURSE OF VISIT TO EMBASSY 16 JULY, EXPRESSED CONFIDENCE GM-H COULD COMPETE SUCCESSFULLY WITH NEW JAPANESE PRODUCERS BUT GENERALLY VIEWED GOA MOVE AS UNWISE AND COUNTER-PRODUCTIVE FOR LONG-RUN VOLUME AND COST LEVELS OF AUSTRALIAN AUTOMOTIVE PRODUCTION. GM AGREES AUSTRALIAN MARKET WILL NOT SUPPORT PROJECTED NUMBER OF MANUFACTURERS AND ASSEMBLERS AND SEES NEED FOR CONTINUING HIGH LEVEL OF AUTOMOTIVE PROTECTION IN FACE OF IMPORT COMPETITION.

6. EMBASSY COMMENT: BOWEN ANNOUNCEMENT REFERS TO PRIME MINISTER'S NOVEMBER 14 STATEMENT (REF A) WHICH ADOPTED AUTO INDUSTRY PLAN REPRESENTING DRASTIC MODIFICATION OF EARLIER INDUSTRIES ASSISTANCE COMMISSION PROPOSALS. IN EFFECT, NOVEMBER 14 AND JULY 10 STATEMENTS APPEAR TO NEGATE BASIC OBJECTIVE OF IAC REPORT, WHICH INTER ALIA SOUGHT TO RATIONALIZE INDUSTRY BY ACHIEVING INCREASED ECONOMIES OF SCALE IN WHAT IS NOW A BADLY FRAGMENTED, SMALL (ABOUT 500,000 UNITS PER YEAR NOW SERVED BY 3 MANUFACTURERS, 6 ASSEMBLERS AND SIZEABLE C.B.U. IMPORTS). THIS APPARENT CONTRADICTION CAN PROBABLY BE EXPLAINED BY FACT THAT GOA HAS OTHER POLICY OBJECTIVES, SOME OF THESE SHORT-TERM, TO WHICH IT ASSIGNS HIGHER PRIORITY THAN LONG-RANGE RATIONALIZATION OF INDUSTRY. THESE WOULD INCLUDE: (A) ASSISTANCE TO WEAK SOUTH AUSTRALIAN VEHICLE INDUSTRY FOR POLITICAL PURPOSES. (TIMING OF JULY 10 ANNOUNCEMENT, WHICH FOLLOWED NINE MONTHS OF NEGOTIATIONS BETWEEN GOA AND MANUFACTURERS, WAS IDEAL FROM WHITLAM GOVERNMENT'S STANDPOINT BECAUSE S.A. STATE LABOR GOVT. FACED TOUGH ELECTION JULY 12, WHICH IT SUBSEQUENTLY BARELY WON.) (B) REDUCTION IN SEVERELY COMPETITIVE JAPANESE AUTOMOTIVE IMPORTS BY COAXING TOYOTA AND NISSAN INTO HIGHER LOCAL CONTENT OPERATIONS. JAPANESE IMPORTS WERE SOARING AT EXPENSE OF LOCAL AUTO MANUFACTURING EMPLOYMENT UNTIL GOA IMPOSED VARIABLE TARIFF LAST NOVEMBER (REF A) UNDER WHICH CBU AND CKD IMPORTS ATTRACT HIGHER LIMITED OFFICIAL USE

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DUTIES AS LONG AS CBU IMPORTS HOLD OVER 20 PERCENT OF MARKET. (GOA HAS REPORTEDLY HINTED THESE HIGHER TARIFFS MAY CONTINUE EVEN IF IMPORTS FALL BELOW 20 PERCENT.) (C) INCREASE IN EFFICIENCY OF LOCAL INDUSTRY BY BRINGING ALLEGEDLY MORE EFFICIENT JAPANESE FIRMS INTO MANUFACTURING. (D) ESTABLISHMENT OF GOA EQUITY IN VEHICLE INDUSTRY. (E) PROMOTION OF SMALL, 4-CYLINDER AUTOS, WHICH GOA FAVORS ON SOCIAL AND ENVIRONMENTAL GROUNDS IN ADDITION TO FACT IMPORTS FROM JAPAN CONCENTRATED IN THIS CATEGORY.

7. WE MUST ASSUME THAT, GIVEN THESE OTHER GOALS, GOA IS PREPARED TO ACCEPT RISK OF EVENTUAL REDUCTION IN NUMBER OF LOCAL MANUFACTURERS. AT BEST, THE ENTRY OF NISSAN AND TOYOTA IS UNFAVORABLE DEVELOPMENT FOR FORD AND GM-H. AT WORST, THE GOA, HAVING APPARENTLY SUCCESSFULLY ENTICED RELUCTANT JAPANESE INTO JOINING MANUFACTURERS' CLUB, MAY EVENTUALLY FACE PRESSURE TO



FAVOR THEM TO THE POSSIBLE DISADVANTAGE OF PRESENT PRODUCERS.

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8. ON THE OTHER HAND, THERE IS STILL GOOD REASON FOR BELIEVING THAT THE JAPANESE DECISION TO ENTER MANUFACTURING IN AUSTRALIA IS FAR FROM FINAL. SINCE THE ORIGINAL JAPANESE EXPRESSION OF INTEREST IN EARLY 1974, AUSTRALIAN COSTS AND LABOR PROBLEMS HAVE INTENSIFIED. WHILE THE JAPANESE HAVE TENTATIVELY YIELDED TO THE PRESSURE TO BUILD ENGINES IN SOUTH AUSTRALIA, THEY WERE NOT AND PRESUMABLY ARE STILL NOT ENTHUSIASTIC ABOUT THIS DISADVANTAGEOUS LOCATION. UNDER PRESENT CONDITIONS, THE JAPANESE INDUSTRY CAN COMPETE VERY EFFECTIVELY IN THE AUSTRALIAN MARKET WITH IMPORTED VEHICLES NOTWITHSTANDING THE INCREASED TARIFFS THEY NOW FACE. FOR THIS REASON, THEIR WILLINGNESS TO PROGRESS SLOWLY IN THE CURRENT NEGOTIATIONS TO START MANUFACTURE IS WIDELY REGARDED AS A CONCESSION TO AUSTRALIA'S IMPLICIT THREAT FURTHER TO RESTRICT



IMPORTS. IT SEEMS PROBABLE THAT IN THE ABSENCE OF THIS PRESSURE  
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THE JAPANESE INDUSTRY MIGHT BE HESITANT TO CONTEMPLATE THE  
INVESTMENT AND THE MANUFACTURING PROBLEMS ENTAILED IN SETTING UP  
LOCAL PRODUCTION IN AUSTRALIA. FOR ALL OF THESE REASONS, THE  
PROCESS OF WORKING OUT THE UNSPECIFIED "IMPORTANT MATTERS" WHICH  
REMAIN TO BE NEGOTIATED MAY BE A LENGTHY ONE.  
GREEN

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